CHERRY & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Nashville, TN

2nd Quarter Report 2017

OFFICE

Market Trends

Nashville Office Overview

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Economic Overview

According to the Bureau of Labor Statistics, the unemployment rate decreased 0.2 percentage points from 3.1% in April 2016 to 2.9% in April 2017. The unemployment rate for Nashville, at 2.9%, was lower than the state of Tennessee, which reported 4.7%, while the US reported 4.1%. The Nashville metropolitan statistical area job creation totaled 34,300 over the past year. Office using jobs (information, professional and business services, and financial activities) gained 9,100 jobs during the past year.

Market Overview

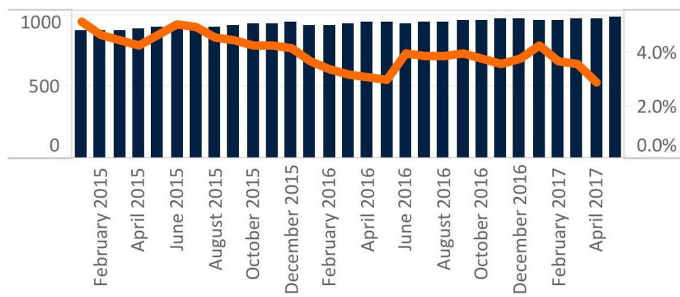
The Nashville office market recorded 99,484 square feet (sf) of positive absorption during 2Q 2017. Absorption was up from negative 201,991 sf recorded during 2Q 2016. The total vacancy rate has increased from 8.2% in 2Q 2016 to 8.5% at the close of 2Q 2017. Direct vacancy rates increased 2.8 percentage points from 4.8% to 7.6% during the same time period. Weighted average rent growth continued to improve during 2Q 2017. Weighted average asking rents in all classes improved by 7.4% recording $26.22 per square foot (psf) at the close of 2Q 2017 compared to 2Q 2016. Class A weighted average rents improved 4.4% year-over-year, recording $29.44 psf at the close of 2Q 2017.

Market Highlights

Absorption rebounded during the second quarter of 2017. Most of the activity came from the delivery of Seven Springs II and Hill Center Brentwood A. Pre-leasing in both buildings contributed to over 150,000 sf of positive absorption. Other contributors include Vanderbilt University Medical Center (41,426 sf) on West End and WeWorks (49,835 sf) Downtown. Fortunately, there was enough positive activity to cushion the vacancies. St. Thomas Health Services had the biggest negative impact vacating 61,923 sf at 501 Great Circle in MetroCenter, followed by five other vacancies over 15,000 sf each. Construction continues to be the hot topic with over 3 million square feet (msf) underway. Of that total, over 1.1 msf is expected to deliver by year-end 2017.

Nashville Employment

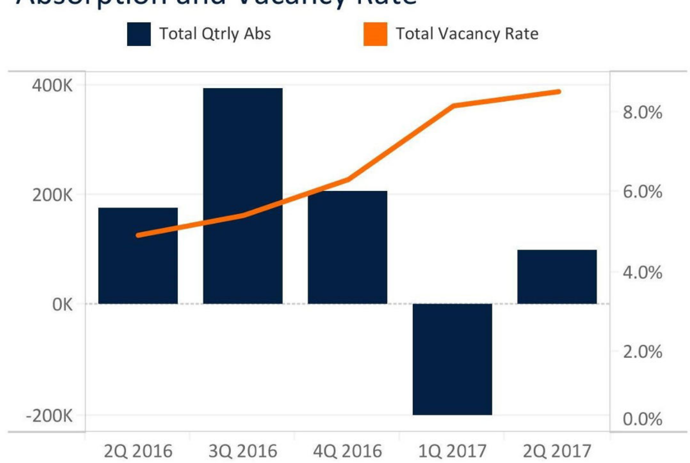
Source: BLS



Market Recap

Inventory (sf)	35,391,594
# of Bldgs	413
Qrtly Abs (sf)	99,484
Total Avail Rate	14.0%
Total Vacancy Rate	8.5%
U/C Inventory (sf)	3,111,924
Delivered (sf)	220,018
Weighted Average Asking Rate (FSG)	$26.22

Absorption and Vacancy Rate



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Overview by Class (Total)

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Overview by Class (Total)

Class	Inventory (sf)	Available (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
A	18,131,098	2,444,981	1,224,543	6.8%	189,142	140,916
B	14,007,203	1,901,437	1,447,399	10.3%	-82,504	-232,570
C	3,253,293	598,050	340,183	10.5%	-7,154	-10,853
Overall	35,391,594	4,944,468	3,012,125	8.5%	99,484	-102,507

Overview by Market (Total)

Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
Airport North	A	1,880,606	447,894	151,727	8.1%	-45,125	-79,936
	B	1,551,113	120,691	54,491	3.5%	6,531	7,146
	C	100,000	2,760	1,260	1.3%	-1,260	-1,260
	Subtotal	3,531,719	571,345	207,478	5.9%	-39,854	-74,050
Airport South	A	824,213	84,986	26,282	3.2%	0	0
	B	2,506,582	511,560	450,077	18.0%	-704	-21,923
	C	819,127	235,110	203,103	24.8%	4,215	661
	Subtotal	4,149,922	831,656	679,462	16.4%	3,511	-21,262
Brentwood	A	2,899,455	311,956	183,040	6.3%	139,050	240,500
	B	2,747,377	296,555	218,047	7.9%	5,975	-111,098
	C	573,574	230,195	27,989	4.9%	-22,307	-20,515
	Subtotal	6,220,406	838,706	429,076	6.9%	122,718	108,887
Cool Springs/ Franklin	A	4,693,506	855,642	480,851	10.2%	-29,713	31,074
	B	840,804	29,927	25,906	3.1%	-12,758	-19,224
	Subtotal	5,534,310	885,569	506,757	9.2%	-42,471	11,850
Downtown	A	3,836,664	378,206	129,817	3.4%	97,495	92,231
	B	3,774,402	638,216	518,238	13.7%	-9,076	-38,273
	C	487,582	55,592	53,856	11.0%	9,422	4,686
	Subtotal	8,098,648	1,072,014	701,911	8.7%	97,841	58,644
Green Hills	A	709,730	91,767	30,359	4.3%	9,578	14,302
	B	487,933	17,887	11,276	2.3%	-2,520	-1,878
	C	101,525	0	0	0.0%	1,476	0
	Subtotal	1,299,188	109,654	41,635	3.2%	8,534	12,424
MetroCenter	A	369,257	39,066	39,066	10.6%	-1,953	-28,679
	B	857,231	177,351	115,239	13.4%	-64,321	-69,548
	C	436,050	16,056	16,056	3.7%	0	-4,774
	Subtotal	1,662,538	232,473	170,361	10.2%	-66,274	-103,001
Midtown	A	2,382,929	205,336	170,624	7.2%	22,826	-126,363
	B	945,887	87,550	46,425	4.9%	-5,631	22,228
	C	408,658	19,346	18,228	4.5%	-767	3,973
	Subtotal	3,737,474	312,232	235,277	6.3%	16,428	-100,162
Rivergate	A	201,014	21,245	9,494	4.7%	-1,414	-1,414
	B	145,874	14,000	0	0.0%	0	0
	Subtotal	511,941	71,286	26,235	5.1%	1,203	2,603
Overall		35,391,594	4,944,468	3,012,125	8.5%	99,484	-102,507

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Overview by Market Cont'd

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Overview by Market (Total) Cont'd

Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
Rivergate	C	165,053	36,041	16,741	10.1%	2,617	4,017
	Subtotal	511,941	71,286	26,235	5.1%	1,203	2,603
West End	A	333,724	8,883	3,283	1.0%	-1,602	-799
	B	150,000	7,700	7,700	5.1%	0	0
	C	161,724	2,950	2,950	1.8%	-550	2,359
	Subtotal	645,448	19,533	13,933	2.2%	-2,152	1,560
Overall		35,391,594	4,944,468	3,012,125	8.5%	99,484	-102,507

Construction by Market

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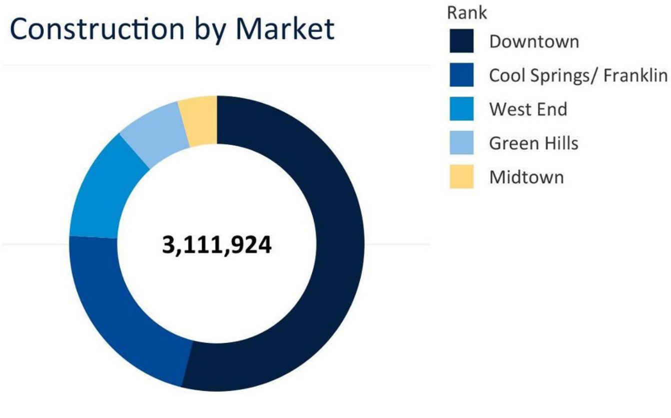
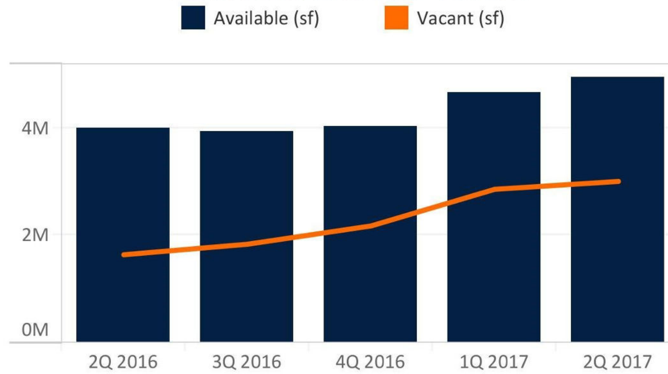
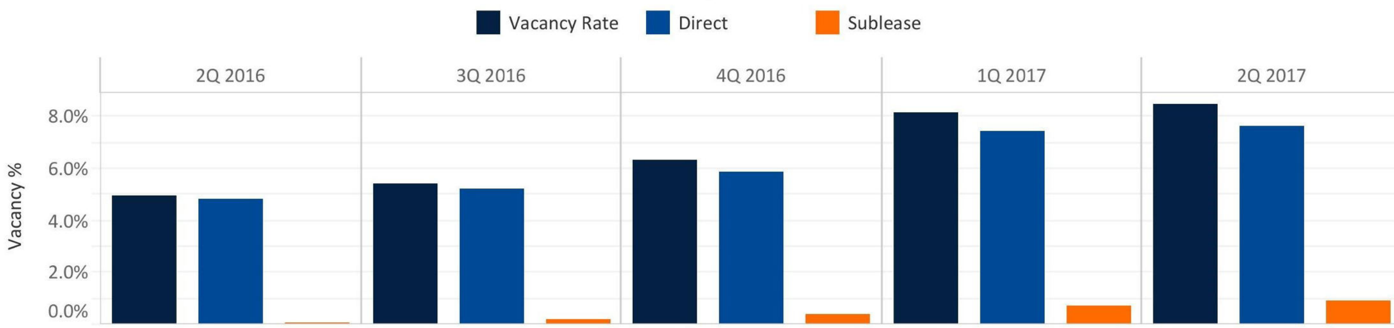
Construction by Market



Total Available and Vacant



Vacancy Rate



Overview by Class (Direct)

Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	18,131,098	1,902,700	1,074,894	5.9%	239,671	257,018
B	14,007,203	1,671,874	1,298,508	9.3%	-80,531	-195,154
C	3,253,293	574,948	317,081	9.7%	11,174	12,249
Overall	35,391,594	4,149,522	2,690,483	7.6%	170,314	74,113

Overview by Class (Sublease)

Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	18,131,098	542,281	149,649	0.8%	-50,529	-116,102
B	14,007,203	229,563	148,891	1.1%	-1,973	-37,416
C	3,253,293	23,102	23,102	0.7%	-18,328	-23,102
Overall	35,391,594	794,946	321,642	0.9%	-70,830	-176,620

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Direct Vacancy Rates

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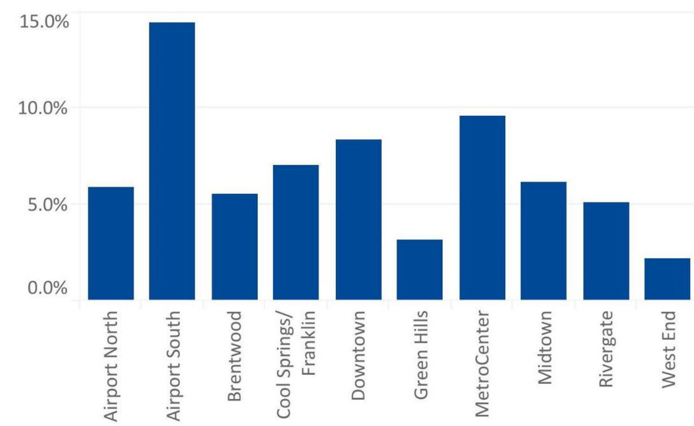
Direct Vacancy Rates

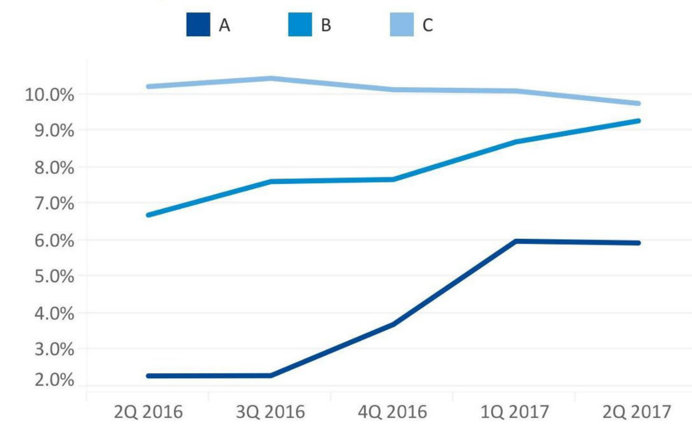
By Market and Class

Market Name	Class	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017
		Quarter Year				
Airport North	A	1.9%	3.8%	3.8%	5.7%	8.1%
	B	4.6%	4.2%	4.0%	3.9%	3.5%
	C	0.0%	0.0%	0.0%	0.0%	1.3%
Airport South	A	0.4%	0.0%	0.0%	0.0%	3.2%
	B	6.0%	15.6%	15.2%	14.8%	14.7%
	C	23.8%	24.9%	24.9%	25.3%	24.8%
Brentwood	A	1.0%	2.2%	1.4%	3.2%	5.3%
	B	0.4%	0.2%	1.0%	6.3%	6.6%
	C	2.7%	2.5%	1.3%	1.0%	1.7%
Cool Springs/ Franklin	A	1.5%	0.7%	5.1%	8.1%	8.0%
	B	0.0%	0.8%	0.8%	0.8%	1.7%
Downtown	A	4.0%	3.5%	5.4%	5.5%	3.0%
	B	14.5%	12.9%	12.7%	13.5%	13.5%
	C	12.0%	12.0%	12.0%	13.0%	11.0%
Green Hills	A	7.1%	6.4%	6.4%	5.6%	4.3%
	B	1.5%	1.7%	1.9%	1.8%	2.3%
	C	2.4%	2.4%	0.0%	1.5%	0.0%
MetroCenter	A	3.7%	3.7%	2.8%	10.1%	10.6%
	B	8.6%	3.3%	4.6%	5.3%	12.8%
	C	2.6%	2.6%	2.6%	2.6%	2.6%
Midtown	A	1.8%	1.6%	1.5%	8.1%	7.2%
	B	6.8%	7.2%	6.7%	3.8%	4.4%
	C	5.2%	5.6%	5.4%	4.3%	4.5%
Rivergate	A	3.1%	4.0%	4.0%	4.0%	4.7%
	B	0.0%	0.0%	0.0%	0.0%	0.0%
	C	12.2%	12.2%	12.6%	11.7%	10.1%
West End	A	1.5%	1.5%	0.8%	0.5%	1.0%
	B	5.1%	5.1%	5.1%	5.1%	5.1%
	C	4.8%	3.5%	3.3%	1.5%	1.8%
Overall		4.8%	5.2%	5.9%	7.4%	7.6%

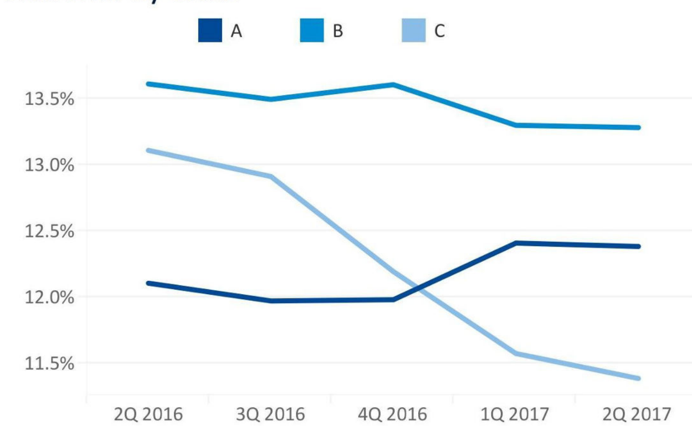
By Market



Nashville by Class



National by Class



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Direct Weighted Average Asking Rates (FSG)

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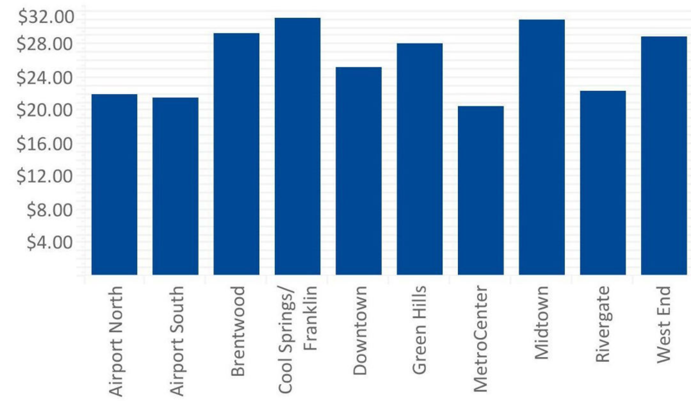
Direct Weighted Average Asking Rates (FSG)

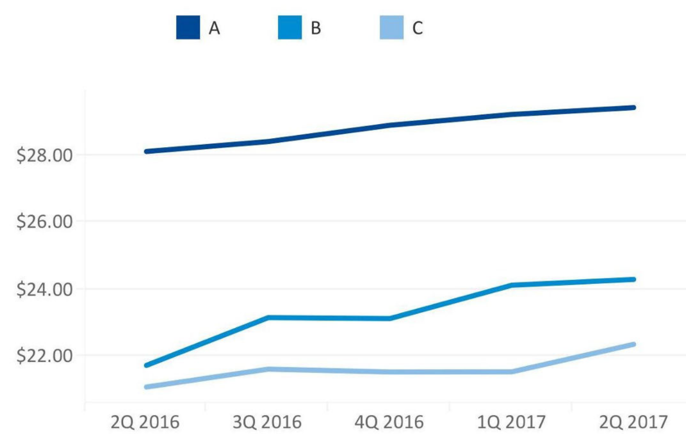
By Market and Class

Market Name	Class	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017
		Quarter Year				
Airport North	A	$22.02	$19.82	$20.32	$20.97	$22.73
	B	$19.61	$19.28	$19.31	$19.02	$19.52
	C	-	-	-	-	$21.00
Airport South	A	$21.00	-	-	$24.50	$28.88
	B	$18.21	$15.21	$22.24	$21.96	$22.21
	C	$13.47	$13.48	$13.56	$13.40	$14.13
Brentwood	A	$26.95	$29.48	$29.08	$29.68	$30.99
	B	$25.18	$25.64	$25.82	$30.47	$30.15
	C	$24.87	$25.88	$26.00	$26.26	$26.44
Cool Springs/ Franklin	A	$29.23	$29.50	$29.67	$31.28	$31.53
	B	$22.83	$20.00	$22.51	$23.43	$23.16
Downtown	A	$29.40	$29.42	$31.02	$31.40	$30.64
	B	$23.66	$24.74	$23.73	$23.84	$23.98
	C	$18.56	$18.39	$18.39	$18.59	$18.61
Green Hills	A	$30.61	$30.50	$30.66	$30.69	$30.76
	B	$21.25	$21.32	$21.66	$23.15	$22.68
	C	-	-	-	-	-
MetroCenter	A	$20.00	$20.00	$20.00	$20.00	$20.00
	B	$17.95	$18.02	$18.51	$18.32	$20.57
	C	$22.00	$22.00	$21.02	$21.02	$22.00
Midtown	A	$31.65	$31.44	$31.52	$32.22	$33.27
	B	$25.87	$25.95	$29.47	$29.57	$30.12
	C	$21.21	$21.44	$21.45	$21.07	$21.30
Rivergate	A	$22.09	$22.09	$22.09	$22.12	$22.12
	B	-	-	-	-	-
	C	$14.03	$22.71	$22.41	$22.41	$22.41
West End	A	$28.91	$29.70	$30.39	$31.00	$31.00
	B	$29.53	$29.53	$29.53	$29.53	$29.53
	C	$20.47	$20.63	$20.68	$21.50	$21.69
Overall		$24.28	$25.23	$25.60	$26.12	$26.22

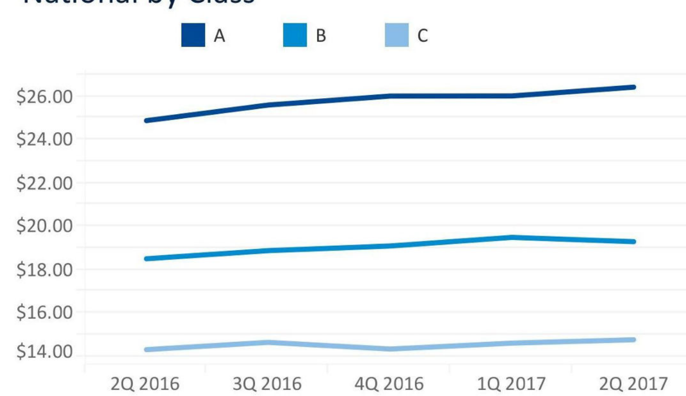
By Market



Nashville by Class



National by Class



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Absorption Map

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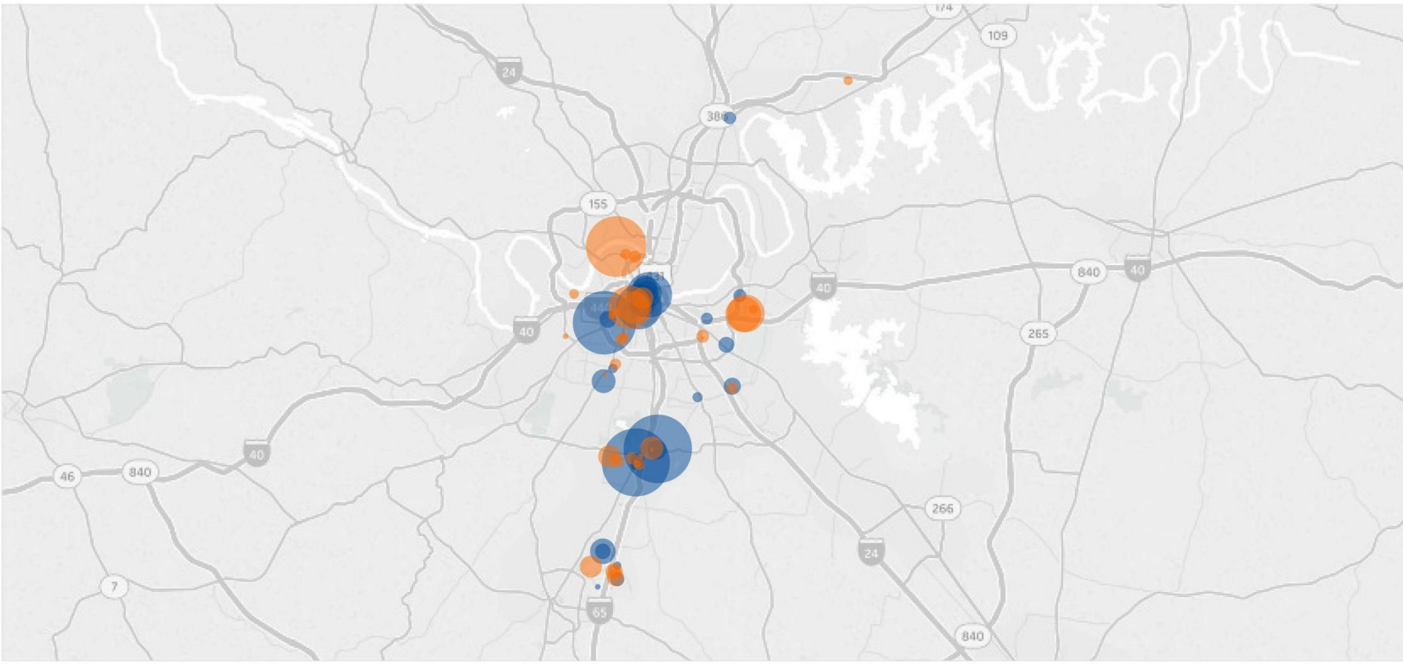
Absorption Map

Negative Positive



Largest Positives (Direct)

Property Name	Significant Transactions	Market Name	Class	
Seven Springs II	Construction completed and building delivered 61% occupied by Surgery Partners	Brentwood	A	78,864
Hill Center Brentwood Bldg A	Construction completed and delivered 87% pre-leased	Brentwood	A	78,018
3322 West End Ave	Vanderbilt; Heritage Medical Associates; Sims Funk Law Firm	Midtown	A	67,628
One Nashville Place	WeWorks	Downtown	A	34,824
1201 Demonbreun St	Concord Music Group	Downtown	A	34,514
Fifth Third Center	Forrester Research	Downtown	A	16,761
Dover Centre Bldg B	PopHealthcare	Cool Springs/ Franklin	A	11,006
Gulch Crossing	Raymond James (expansion)	Downtown	A	10,171

Largest Negatives (Direct)

Property Name	Significant Transactions	Market Name	Class	
501 Great Circle Rd	St. Thomas Health Services	MetroCenter	B	-61,923
1801 West End	ICA Informatics Corporation of America -15,970 sf; Marsh, LLC -15,988 sf	Midtown	A	-31,958
Lakeview I	Mitsui & Co. (U.S.A.), Inc. -20,867 sf; Keyence Corp. -2,862 sf	Airport North	A	-23,729
Lakeview II	Symphony Services Corporation; Vanick Digital	Airport North	A	-21,396
Roundabout Plaza	William Morris Endeavor Entertainment, LLC	Midtown	A	-17,606
Brentwood Commons Bldg I	AAbakus -2,169 sf; Rezult Group -6,752 sf	Brentwood	B	-8,921
Gateway Plaza I	Foundation Recovery Network -17,091 sf; Southeast Psych Nashville 4,800 sf	Brentwood	A	-8,696
Aspen Grove Corp Center 300	Wallenius Wilhelmsen Logistics	Cool Springs/ Franklin	B	-8,149

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Leasing Activity Trends

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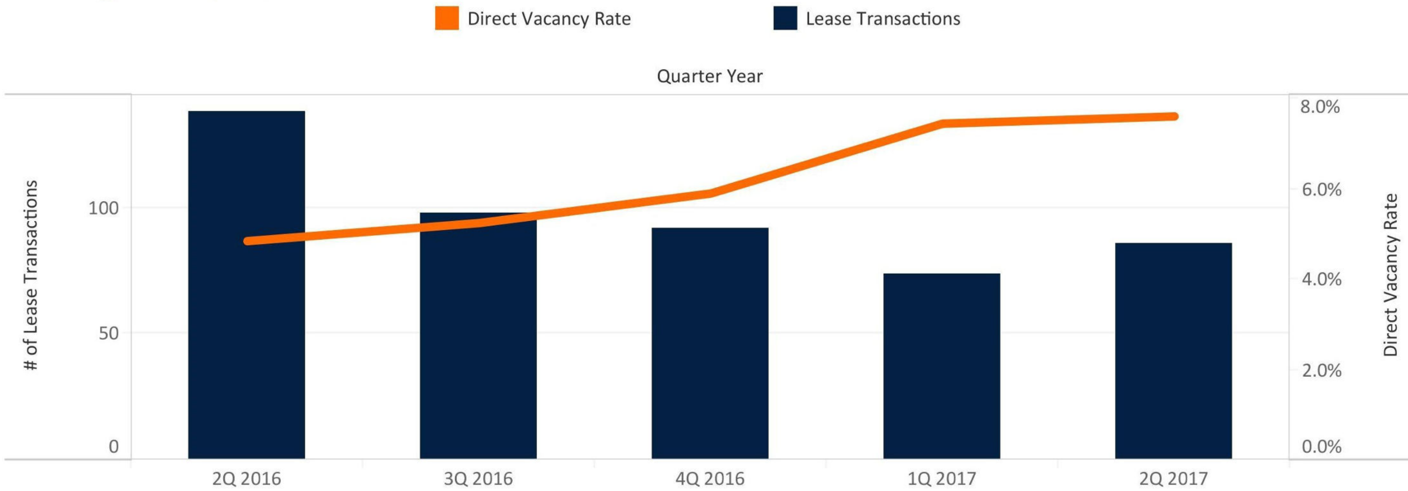
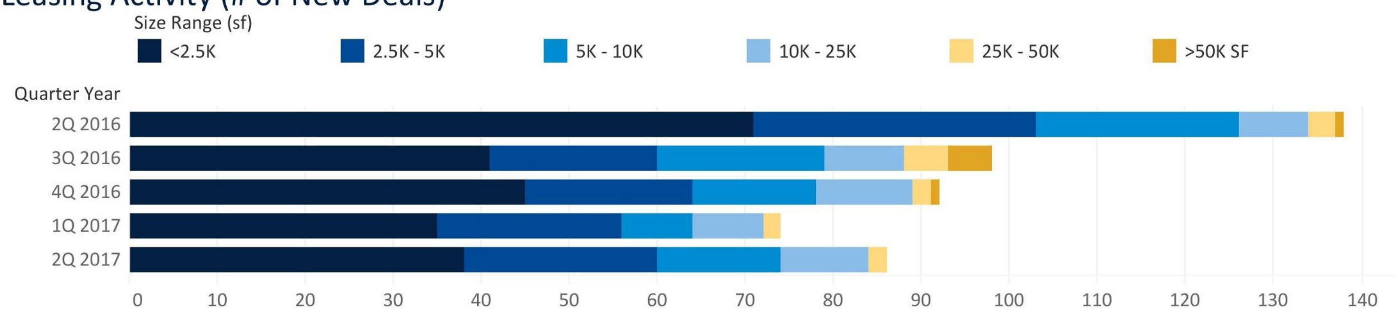
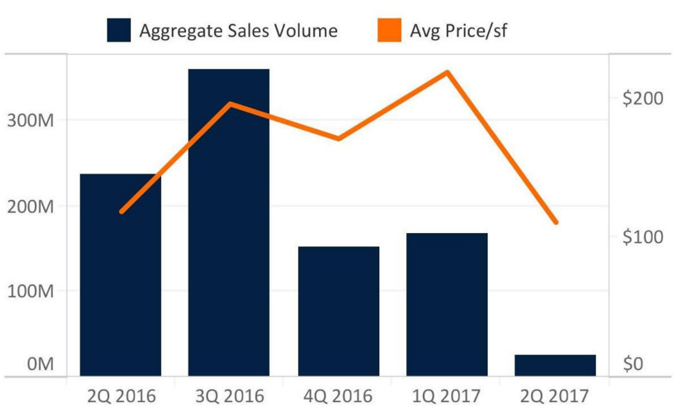
Leasing Activity Trends



Leasing Activity (# of New Deals)



Sales Volume vs. Price/SF



Top Sales

Property	Sale Date	Buyer	Sale Price
Vantage Place	04/06/2017	The Dilweg Companies	$17,700,000
Premier Building	04/05/2017	AmCorp Realty Corporation	$4,193,793
Westgate Pointe Office Condominiums Unit 100	05/08/2017	Cspark Incorporated	$1,200,000
1017 17th Ave S	05/31/2017	Senturian Senior Housing Brokerage	$833,000
Royal Oaks Trade Center Bldg 2	04/28/2017	Gary and Denise Taber	$369,000

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Market Trends Map

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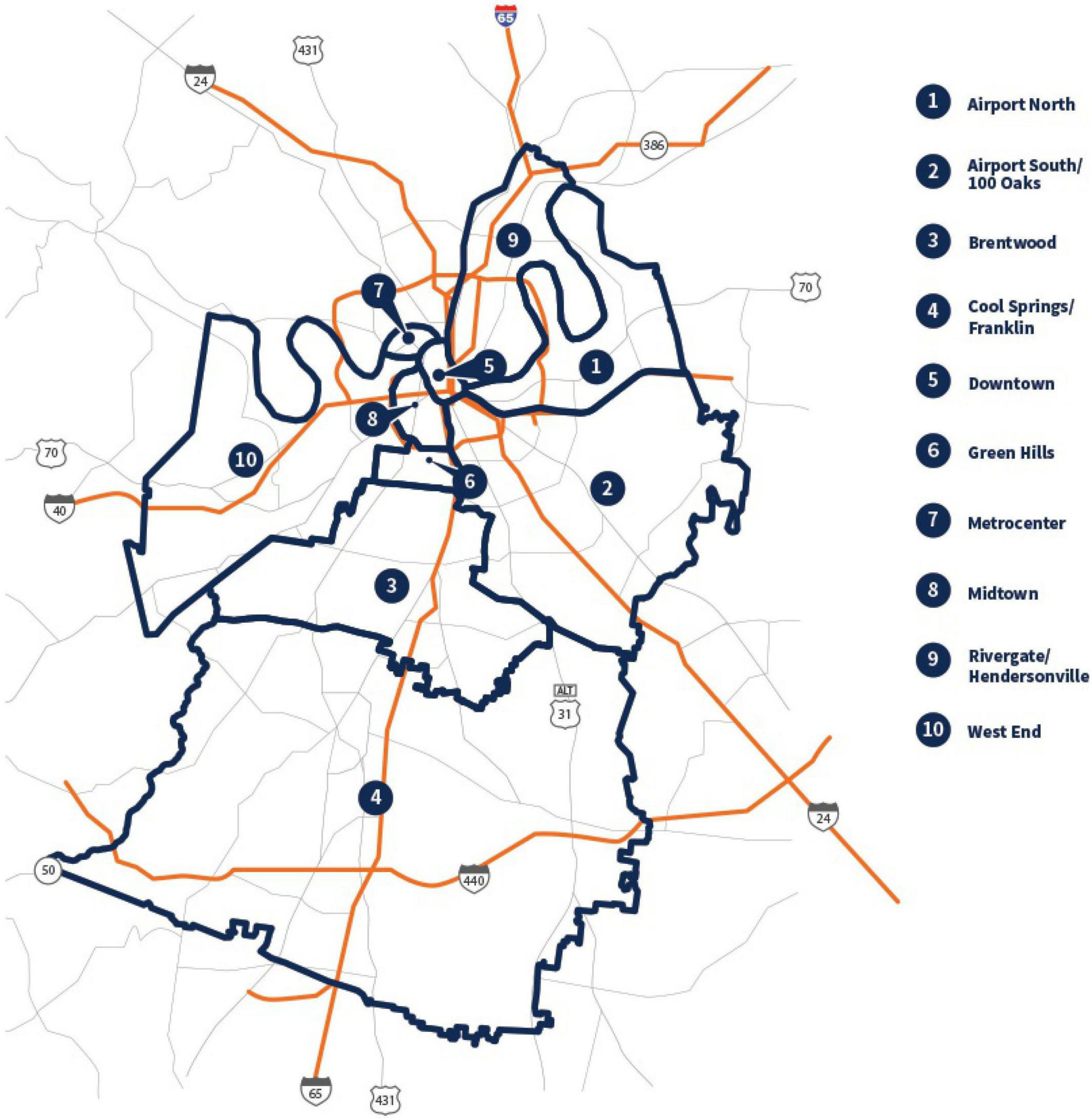

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